

Case Study of Private Forestlands Managed for Climate Mitigation: Bluesource Sustainable Forests Company

Submission prepared by Anew Climate, LLC in response to SBTi's Call for Evidence on the Effectiveness of the Use of Environmental Attribute Certificates in Corporate Climate Targets.

Evidence is provided in response to SBTi questions 1, 5, 7, and 8.

Introduction

Improved forest management (IFM) projects are credited for the net climate benefits of improved management practices that reduce or remove GHG emissions on forestlands. In the United States, groups like Anew Climate, LLC develop these projects in partnership with landowners who wish to implement sustainable harvesting practices for the purpose of generating and selling environmental attribute certificates, e.g., carbon credits. Projects reduce emissions by harvesting timber below regional baseline levels and sequester carbon through the growth of trees that are left standing. This fundamental shift in common practice is driven by the presence of a clear market signal for environmental attributes, as evidenced by the creation of the Bluesource Sustainable Forests Company. The acceptance and use of environmental attribute certificates can transform how forestlands are managed at the industry level and bring the world closer to climate stabilization.

The History of BSFC

The Bluesource Sustainable Forests Company (BSFC) was formed in 2021 as a joint venture between Oak Hill Advisors, a New York-based investment manager, and Bluesource, a Salt Lake City-based carbon developer who merged with Element Markets in 2022 and now operates under Anew Climate, LLC. Bluesource formed the company to address the slow pace of carbon adoption among timberland owners. Over the course of fifteen years, Bluesource's nature-based carbon development business analyzed approximately 40 million acres of timberland in the United States. Of this, approximately 30 landowners representing 2.0M acres hired Bluesource to develop forest carbon projects on their land.

This low rate of success had several causes. First, for most of Bluesource's history the price of carbon credits generated by IFM projects ranged between \$5 and \$15 per ton, which was not sufficient to motivate many landowners. Second, IFM carbon projects require three years until the landowner begins to receive revenue and a decade to receive the full value of a project. Meanwhile, approximately 5% of large timberland parcels change ownership every year.¹ This represents approximately 5M acres per year, which is an area roughly the size of New Jersey.

This fast pace of turnover is due to new tax laws that date from the 1980s. The advent of the Real Estate Investment Trust (REIT) made it more economically efficient for the forest products companies, which historically were vertically integrated and owned timberland, to instead sell their land and buy logs from a new owner or a cheaper supplier, rather than to own it themselves. This new class of investment, Timber REITs, was shortly joined by Timberland Investment Management Organizations (TIMOs) which held the same tax advantages as REITs, just in a private structure. As TIMOs and REITs accumulated a

¹ Reeves, T. (2023, June 20). *North America's Top Timberland Owners and Managers, 2023 Update*. Forisk Consulting. <https://forisk.com/blog/2023/06/20/north-americas-top-timberland-owners-and-managers-2023-update/>

dominant portion of US timberland in the early 2000s, forests began to trade in the same way as illiquid securities.²

The Forestland Group

The Forestland Group (TFG) was one of the several TIMOs launched in the 1990s to seize this opportunity. Between 1995 and 2013, TFG accumulated a portfolio of 3.6 million acres of mixed hardwood forests across the United States and internationally.³ TFG marketed itself as a vehicle for investors to bet on the future price of high-value logs such as cherry, white oak, and sugar maple. During the 1990s and early 2000s housing boom, the prospects for timberland as an asset class were bright. Hardwoods were highly sought after, and their supply is price inelastic. There are only so many of these trees reaching maturity in any given year. As demand rises, prices should, in theory, rise faster.

Due to a growing global middle class and recent double-digit returns, there were many reasons to make this bet.⁴ However, macroeconomics quickly eroded the investment thesis. The global financial crisis of 2009 to 2011 halted housing construction. Synthetic flooring and engineered wood products proved a cost-effective alternative to hardwoods in high value markets such as flooring, cabinetry, and furniture. Digitization of corporate records and newspapers halved the market for pulp and paper in the US. Retaliatory tariffs on US hardwoods in 2017 and 2018 cut off Asian export markets.

The combination of these factors forced TFG to start liquidating its portfolio in earnest in 2016. By 2022, TFG had sold 1.8M acres to other TIMOs or private groups. With the investment management community bearish on hardwood-focused investments, the firm was unable to raise additional capital. As TFG funded its operations through investment management fees, this was an existential threat to the company. With its current funds reaching their end of life, TFG expected to fully dissolve by 2027.

How VCM Pricing is Driving Additional Investment in Decarbonization

BSFC began discussing a merger with TFG in 2022 to avert this outcome and the uncertain future corporate dissolution places on that company's assets, its well-stocked forestlands. An example of this uncertain future is the Parkersburg property that TFG sold to Consolidated Timber in 2021. Following the sale, the new owners immediately quadrupled the harvest rate. The relatively weak price of hardwood logs makes carbon projects on these forestlands financially feasible. A carbon price of \$15 to \$20 per tonne of CO₂ equivalent is often superior to the market rate for wood. According to several voluntary market observers, a \$20 per tonne price will continue through 2030 and likely increase.⁵

The figures below show the historical average log prices for each of TFG's four regions compared to the carbon value of those logs at a price point of \$20 per credit.⁶ Note that log prices vary for many reasons on each property. The data show that a large portion of logs which would have been harvested in each region would not be economically valuable to cut under carbon-first management. Said another way,

² Ginn, W. (2005). *Investing in Nature: Case Studies of Land Conservation in Collaboration with Business*. Chapter 1. Island Press.

³ Forisk Consulting. (2022). *Forisk North American Timberland Owner & Manager List*.

⁴ National Council of Real Estate Investment Fiduciaries. *Timberland Index 1995 – 2005*.

⁵ Trove Research. (2021, October 29). *Future size of the voluntary carbon market*. <https://trove-research.com/report/future-size-of-the-voluntary-carbon-market>

⁶ A cord is a 4' x 4' x 8' volume of wood. The unit is applied when assigning volume to mixed grades of wood.

environmental attribute certificates, namely carbon credits, provide a viable business alternative for TIMOs and other landowners, enabling further action and investment towards decarbonization.

Table 1. Comparison of historic market price for hardwood and carbon value.

Region	Historical Mean Price (USD/Cord)	Carbon Value (USD/Cord)	Average Credits (tCO ₂ e) / Cord ⁷
Appalachia	\$41.05	\$57.25	2.9
Lake States	\$55.57	\$54.39	2.7
Northeast	\$31.92	\$36.64	1.8
South	\$52.02	\$54.11	2.7

The current and forecasted market price of carbon were enough incentive for BSFC to proceed with the acquisition of TFG, adding 1.7 million acres to its existing ownership of 110,000 acres at transactional value of approximately \$1.8 billion.^{8,9} BSFC's goal is to radically alter the management of these forest assets for the benefit of the climate. Forests that were harvested at unsustainable levels are now allowed to grow because of the carbon markets. But for the market-based tool of carbon credits, these forestlands would have been sold to the next REIT or TIMO and managed in the same way they've been managed for decades.

The Role of BSFC

Forests in the United States face significant pressures from land use change, industrial harvesting, and urbanization. Since 2001, approximately six million acres of US forests have been converted to agriculture or urban use and 84 million acres were clearcut, which constitutes approximately 20% of all private forests.¹⁰ Nearly half of this lost acreage occurred in the states where BSFC owns property. Table 2 on the following page shows BSFC's largest land holdings by state and the total aggregate tree cover loss in those states since 2001.

⁷ Carbon contents are determined using biomass equations laid out in Jenkins et al. *National Scale Biomass estimators for United States tree species* (2003) and adopted by ACR's Improved Forest Management (IFM) on Non-Federal U.S. Forestlands methodology, version 2.0.

⁸ Anew Climate, LLC. (2022, November 02). *Anew and OHA-Led Investor Consortium Acquire 1.7 Million Acre Timberland Portfolio to Expand Improved Forestry Management for Climate Action* [Press Release]. <https://www.globenewswire.com/news-release/2022/11/02/2546812/0/en/Anew-and-OHA-Led-Investor-Consortium-Acquire-1-7-Million-Acre-Timberland-Portfolio-to-Expand-Improved-Forestry-Management-for-Climate-Action.html>

⁹ Dezember, R. (2022, November 2). Wall Street firm makes a \$1.8 billion bet on forest carbon offsets. *The Wall Street Journal*. <https://www.wsj.com/articles/wall-street-firm-makes-a-1-8-billion-bet-on-forest-carbon-offset-11667390624>

¹⁰ World Resources Institute. Global Forest Watch online platform. Accessed June 2023. <https://www.wri.org/initiatives/global-forest-watch>

Table 2. BSFC land holdings versus tree cover loss by state.

State	BSFC Ownership (ac)	Tree Cover Lost Since 2001 (ac) ¹⁰
West Virginia	663,732	592,800
Kentucky	220,202	639,730
New Hampshire	145,669	392,730
New York	132,148	407,550
Wisconsin	113,359	1,059,630
Louisiana	107,485	4,816,500
Michigan	67,670	1,479,530
Arkansas	50,832	4,717,700
Florida	41,609	4,940,000
Virginia	33,962	3,013,400
Tennessee	25,771	1,593,150
Minnesota	24,657	1,721,590
Maryland	10,356	151,411
Mississippi	1,745	6,051,500
Alabama	545	7,780,500
Ohio	27	348,270
Total	1,639,770	39,705,991

This data is selected because it accounts for industrial timber management and harvesting as part of the total tree cover loss, as this gives the most accurate picture of the forestland's carbon emissions. The carbon markets can incentivize the end of business-as-usual CO₂-intensive land management. Even at a \$15 to \$20 price of carbon, the difference in value between wood and emissions reductions is stark.

BSFC decided to make this investment because the revenue from the sale of high-integrity carbon credits can change the typical TIMO revenue model. Future carbon price increases stand to alter land usage in even more geographies. The mixed hardwood forests that make up BSFC's portfolio are likely the first places where carbon markets have the potential to affect significant landscape-scale change. Decades of management for marginal products have undervalued these forests. The carbon markets alter that equation and can accelerate transformative change to help achieve climate stability, provided there is ongoing demand for the environmental attributes. This is possible only if corporate entities have clarity on how carbon credits can be credibly used against climate targets.

In the 2000s, BSFC's forests produced pulp, paper, railroad ties, and shipping pallets. The 2020s could see them start to cool the world's climate. It is a fitting evolution. The forests that fueled the industrial revolution now stand to correct the shortcomings of that legacy so that future generations can enjoy the benefits.